APPENDIX 6

Competitor Profile: e.spire

e.spire Overview

e.spire, formerly American Communications Services, Inc., or ACSI, operates its own local networks, offering dedicated services, data transport, local exchange services, voice messaging products, and networking solutions to business and government customers in 38 cities. It derives much of its business from the sale of dedicated services, including special access, switched transport, and private line services. The company headquarters is in Annapolis Junction, MD and it offers special access service there as well as Baltimore/Washington Corridor; Maryland/Wash DC area; Roanoke, Virginia in the Bell Atlantic service area.

e.spire originally planned to build five local fiber-optic networks in mid-sized cities in the southern U.S., providing interstate special access and private line services to interexchange carriers (IXCs) and large commercial and governmental end users. Within two years, the company had expanded and modified its goals to become a major regional phone company that provides dedicated services (including special access), data transport, local exchange services, voice messaging products, and networking solutions to business and government customers.

Service Areas

e.spire targets small to medium-size cities for development of competitive networks. Currently, 24 networks are in operation serving 38 cities, with 12 more networks under construction.

Within Bell Atlantic's region, e.spire's main operation is in the Baltimore/Annapolis area, serving Baltimore, Laurel, Columbia, and Greenbelt. e.spire began providing service in this area in the fourth quarter of 1997 over 114 miles of fiber and a Lucent 5ESS switch located in Laurel, Maryland.[1] Sales efforts began in the first quarter of 1998. e.spire has been successful in targeting some very large customers in the Bell Atlantic region, including Maryland National Bank, CSX, Equitable Bank, Legg Mason, Amtrak, Social Security Administration, State of Maryland, Baltimore Gas and Electric, Inner Harbor Center, and Oriole Park at Camden Yard.[2]

Strategy[3]

[1] Quality Strategies, *CLEC Network Descriptions,* First Quarter 1998.
[2] Quality Strategies, *CLEC Network Descriptions,* First Quarter 1998.
[3] 1997 Faulkner Information Services, e.spire Company Profile.

e.spire's primary growth strategy is to target small and medium-sized markets in the region south of Baltimore, north of Miami, and east of El Paso, Texas. The company initially targeted cities where the demand for alternative local service is high, there were no CAPs in operation, IXCs have high-volume customers, the business districts are concentrated, and the regulatory environment favorable.

e.spire builds integrated, SONET-based fiber-optic local networks that support voice, data, multimedia, and Internet technologies. These local SONET networks are integrated with the company's coast-to-coast broadband, data communications network. By constructing rather than acquiring its local SONET networks, the company believes it has achieved significant cost savings. It claims that the integrated design and construction of its voice and data network, which uses common technology throughout all markets, provides e.spire with substantial benefits including networking efficiencies and insured quality, reliability, and operating standards.

e.spire has derived much of its business from the sales of dedicated services, including special access, switched transport, and private line services. In late 1996, e.spire introduced local voice service using its own switching facilities. The company's local voice services include local exchange services (dial tone), advanced ISDN PRI, and enhanced voice services. It is actively implementing marketing plans necessary to successfully compete with the incumbent LECs. The company will continue to emphasize building density in existing markets, selling services, broadening products capabilities, and providing customers with responsive customer service.

Financial Profile

During 1997, e.spire raised $485 million in various forms of capital and extended its infrastructure to include 32 cities, 16 Lucent 5ESS switches for dialtone and 44 ATM switches.[4] e.spire reported revenues of $59 million, a six-fold increase over the $9.4 million reported in the previous year. Net loss was $115 million, compared with a net loss of $53 million in 1996. e.spire attributed its net loss to aggressive network construction. The company developed 19 markets in the calendar year 1996. e.spire continues with development, construction, expansion, operation, and acquisition of local networks, and the further development of new services, including local switched voice and high-speed data services.

[4] 1997 Annual Report, e.spire.

Alliances/Partnerships[5]

On January 30, 1997, e.spire signed a non-binding letter of intent for MCI to name e.spire as its preferred local provider for dedicated access services in 21 e.spire markets, including the Baltimore area, for at least a five year period. MCI plans to migrate current dedicated access circuits in these markets to e.spire. The letter of intent also provided for MCI's plans to initiate a wholesale agreement to resell local switched services in at least 10 of the 21 identified markets. According to the terms of the letter, MCI has the option to purchase loop transport services from e.spire where e.spire has collocations with the incumbent LEC and MCI has deployed its own local switch.

e.spire completed its acquisition of CyberGate, a Florida-based Internet Service Provider (ISP), on January 20, 1997. The purchase price was paid in one million shares of e.spire's common stock, with an additional 150,000 shares issuable if Cybergate meets certain performance goals. e.spire acquired Cybergate as part of its strategy to broaden sales and marketing channels for the its family of advanced data communications products and to offer customers a wider range of Internet services. e.spire also offers private labeling of its Internet services to its alternative distribution channels including independent telephone companies, cable television companies, utilities, and banks.

Analysts' Comments

e.spire has been viewed by the analyst community as a strong competitor, with a sound strategy, and a good investment. Analysts' remarks that follow are typical of e.spire in the financial community:

"ACSI's bundled services strategy has come to epitomize, in our view, the migration of traditional voice-oriented CLEC service to a fully Integrated Communication Provider (ICP) offering voice, data, and Internet services"[6]

"e.spire unveiled its fiber network in the city of Baltimore which also extends south to Washington, D.C. .... e.spire can now offer business customers in Baltimore its full range of switched services, with the ability to carry traffic on its own fiber network. Through a real estate relationship, e.spire will be able to connect 52 buildings to its network."[7]

[5] 1997 Faulkner Information Services, e.spire Company Profile.
[6] Wheat First Union, F. Murphy, April 1, 1998.
[7] Deutsche Morgan Grenfell, Inc., December 19, 1997.

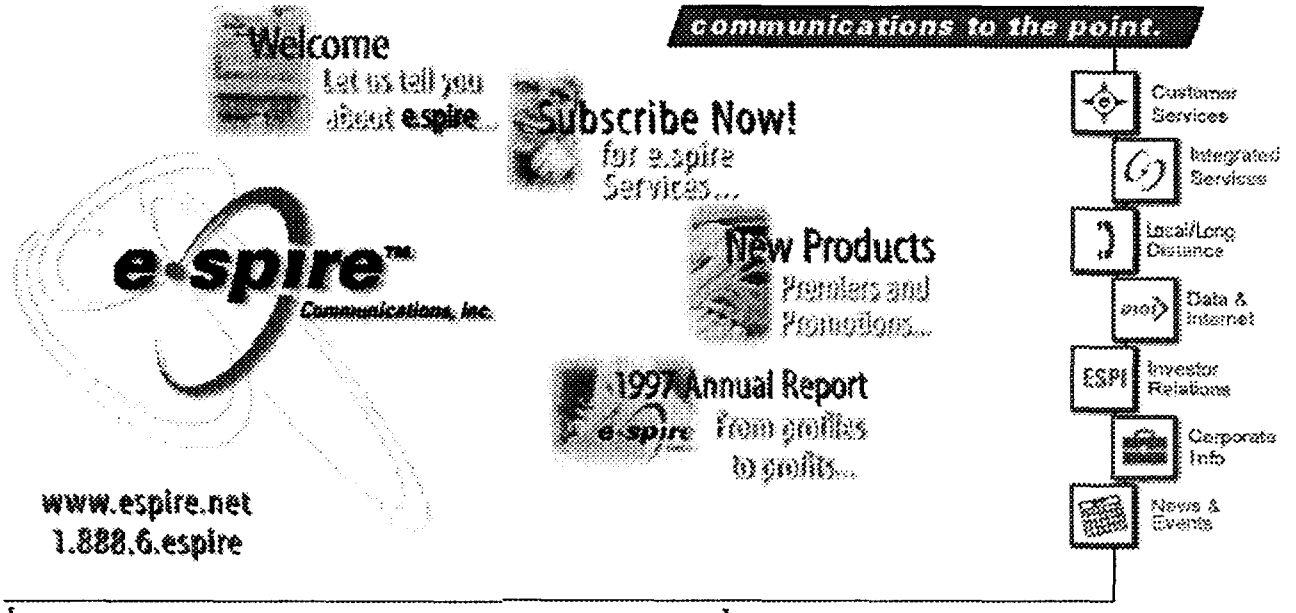
Services

e.spire offers a range of voice, data, and integrated services. In late 1996, the company deployed ACSINet, a coast-to-coast, leased broadband data communications network though which it can offer Frame Relay, ATM, and Internet access services to both ISPs and local businesses. The company has ACSINet data POPs (points of presence) in 42 markets.[8] e.spire's ACSINet supports three native access networking protocols: Internet Protocol (IP), Frame Relay, and ATM as well as a variety of LAN protocols and access methods. In addition, e.spire's staff offers design, consultation, and integration services tailored to address customers' specific applications. Additionally, principally through its acquisition of CyberGate, e.spire began providing Internet services.

e.spire is currently installing Lucent Technologies 5ESS 2000 switches, which provide local business customers with a wide array of digital services. These services include: PBX Trunks; Centrex Services; Local Dialtone; IntraLATA Toll Calling; and, ISDN. Also, e.spire's network services include: Alternative Local Access to Long Distance Carrier Networks at DS-0, DS-1, and DS-3 Capacities; Private Line Services; Switched Transport for Interexchange Carrier Traffic; Interconnection Services to LEC Central Offices; Circuit Grooming and Optimization Services; Network Management Support with Redundant Equipment and Backup Power Systems to Ensure Quality, Reliability, and Security.[9]

e.spire is expanding its operations in the Baltimore/Washington corridor and plans to offer a "corridor calling" service where customers can make calls within the region at a fixed price per call.

[8] 1997 Faulkner Information Services, e.spire Company Profile.
[9] 1997 Faulkner Information Services, e.spire Company Profile.



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CyberGate
Internet Service Provider

Y2K
e.spire Communications, Inc.

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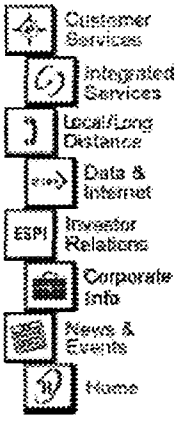

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New Products and Promos

e.spire T1 Dedicated Internet Access is designed exclusively to connect businesses to the Internet over a high-speed, nationwide ATM network, enabling your organization to execute its Internet and Intranet strategies.

Connect your office with **e.spire OfficeConX™** and you're connected to **e.spire**'s local fiber loop, giving you high speed Internet access at a fraction of what it costs the world around you, in a fraction of the time you'd expect. It's easy to have **e.spire**'s experts put you on the fast track to start enjoying a faster, more efficient way of doing business.

e.spire PLATINUM™ delivers high value, without high costs. Because we integrate voice and data services over a single multipurpose T1 line, it's easy to get the right mix of communication services, at the right price. And since you can extend the value of **e.spire** PLATINUM™ with custom features, it's easy to meet your specific communication needs.

Need a connectivity solution created specifically for your business? We have a team of expert consultants ready to help with a cutting-edge complement of data network capabilities to draw from. The backbone of your custom solution will be our coast-to-coast, high-speed network, maintained on a 'round-the-clock basis from our state-of-the-art Network Management Center. So, whatever your needs, **ATM**, **Frame Relay**, or Internetworking, **e.spire** has the solution.

If you are interested in any **e.spire** Promotion, please email our **Product Management Department** or call 1.888.6espire.

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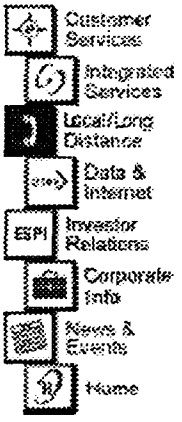

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Voice Services - Special Access

- Local & Long Distance Services -

When business connections demand high speed, high-volume support for voice and data applications, **e.spire** keeps communications in motion. With superior quality voice, data and video carried over private, high-quality fiber optic lines, information always gets where it needs to go, fast - without delays from busy signals, dropped phone calls or interrupted modem connections.

Dedicated Lines

With **e.spire**, you're on the fast track to ensuring that your business applications support the demands of your business operations. By taking advantage of **e.spire** Special Access services you can get the exact degree of voice and data services you need now, and easily scale the services as your requirements grow, virtually eliminating the potential for future throughput bottlenecks.

e.spire Special Access services mean superior service quality, and increased capacity for long distance carrier networks or private network access. You'll deliver information efficiently to any point in your business network - for briefings, training, or workgroup collaboration. With service available at DS1, DS3 and OC-n capacities, large data files and data streams are quickly transmitted and reliably delivered.

Customers use our services as the preferred alternative for local access to long distance carriers.

They benefit from:

- High capacity data transfer with the lowest possible bit error rates
- Alternative local access to long distance carrier networks at DS1, DS3 and OC-n capacities (where available)
- Switched transport for Interexchange carrier traffic
- Private line services and private network solutions
- Circuit grooming and optimization services
- Network management support with redundant equipment and backup power systems

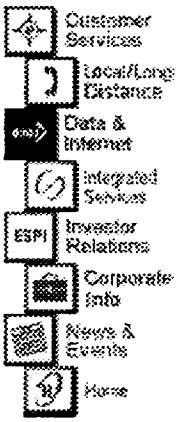
Dedicated Service

With **e.spire** Special Access services, you benefit from nearly 100% availability. Your lines are backed up by "self-healing" fiber optic SONET technology and ring network architecture, so reliability and security are ensured. With focused account representatives in your area, and our Network Management Center operating around the clock to monitor all aspects of the voice and data networks, our service is non-stop and to the point.

If you are interested in any **e.spire** Voice Services or Products, please email our **Product Management Department** or call 1.888.6espire.

Please select which product or service overview page you would like to view.

- Local & Long Distance Services -



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Data & Internet Services

communications to the point.

- Data & Internet Services -

"I want big business Internet solutions for my small business."

We believe **e.spire** is well positioned to capture the huge opportunities in the data communications market, which by conservative industry estimates is expanding 30 percent to 40 percent per year, and is expected to soar from $15 billion in 1997 to $67 billion in 2002, and to an incredible $165 billion in 2005. as online commerce surges from $7 billion last year to $20 billion in 1998, and as the nation's Web population quadruples to an expected 200 million users in the year 2001, **e.spire** should both drive and profit from this growth.

The secret to our success: providing one product, at one price, over one connection, to a defined market. We are meeting demand for a service that empowers small to mid-sized customers by providing the same level of internet solutions typically available only to the largest companies.

e.spire provides turnkey internet "ValuPaks," offering pre-packaged solutions that let customers pick the speed and features they want, depending on the size and needs of their business.

With every "ValuPaks," customers receive a pre-configured router, basic Web hosting, Internet address and maintenance, and even newsfeed service. "ValuPaks" start at 128 Kbps, and can be upgraded to 512 Kbps or 1.5 Mbps via Frame Relay or dedicated access, as the customer's "need for speed" increases.

e.spire also provides custom-tailored solutions that can be created specifically for customers, whether the need is for Frame Relay, Asynchronous Transfer Mode or Internetworking.

The real test of a "big business" data solution is the ability to monitor and manage the network. e.spire provides Managed Network Services, for either **Internet** or **Frame Relay**, specifically designed to serve the needs of smaller companies, providing the same level of network management power previously available only to the Fortune 500.

If you are interested in any **e.spire** Data or Internet Service, please email our **Product Management Department** or call 1.888.6espire.

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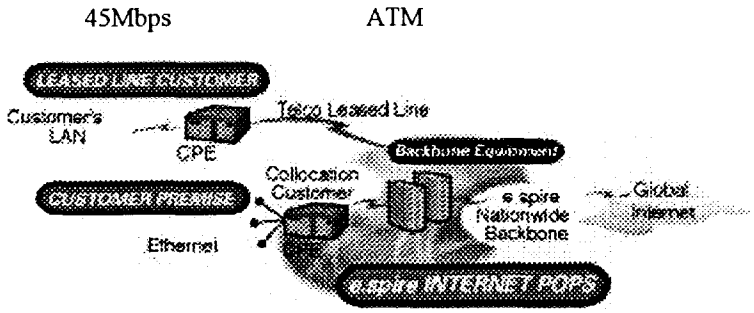

Leased Line Service
Leased-line service is designed for customers requiring Internet access to be extended to their location. You may opt for this service in order to provide Internet connectivity for your corporate network, or to provide access from the Internet to web or public servers which reside on your network.

More Info

If you are interested in any **e.spire** Data or Internet Service, please email our **Product Management Department** or call 1.888.6espire.

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Data Services - Internet Access

- Data & Internet Services -

e.spire Internet Access services are designed exclusively to address network-based communications needs of business customers, by providing a reliable means of executing Internet and Intranet strategies.

By taking advantage of our **e.spire** Internet Access services, you benefit from the speed and reach of the **e.spire** network, the unparalleled expertise of our network engineers, and reliable and economical connectivity to the global Internet. Once connected, you're online with Internet technologies such as email, web access, and file transfer, and you're inline with improving your business processes and efficiencies.

Network

At **e.spire**, we've engineered one of the industry's most extensive high-speed Internets, with a T3 backbone reaching over 40 POPs, nationwide. Designed for maximum throughput, availability and reliability, it is a fully-redundant, meshed T3 network. Diversely routed backbone T3s are interconnected at the physical layer via sophisticated switching technology. The underlying transport medium is ATM, allowing for flexibility in both proactive capacity management, and dynamic re-routing in the event of a failure.

As a Tier 1 Internet Provider, we know that interconnections to the global Internet are an essential aspect of the engineering of our network. As such, we have established several public and private peering relationships to ensure robust connectivity to all Internet destinations. We currently exchange traffic with major Internet service providers at MAE-East, MAE-West, Chicago NAP and Sprint NAP.

Access Services

e.spire offers access to the Internet through frame relay, dedicated lines or ATM, so you can take advantage of connectivity at the speed and price that's right for you. Access to the Internet is made available through both leased-line and collocation services.

Speed	Network Access
64kbps	Frame Relay
128kbps	Frame Relay
256kbps	Frame Relay
384kbps	Frame Relay
512kbps	Frame Relay
1.5Mbps (T1)	Frame Relay
1.5Mbps (T1)	Dedicated
4Mbps	ATM
6Mbps	ATM
10Mbps	ATM
15Mbps	ATM

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Data Services - ATM

- Data & Internet Services -

communicate with the point.

The **e.spire** ATM service is **e.spire's** premium level of service, available from over 40+ POPs nationwide. With this service, **e.spire** provides an ideal solution to users with high-bandwidth, delay-sensitive data communications applications.

With **e.spire** ATM, the performance needs of complex, media-rich applications such as CAD/CAM, remote super-computing, medical imaging, video conferencing, and voice calls are easily met. Our service is also ideal for higher-volume users of 'bursty' applications such as PC-to-server and file transfer. And, with **e.spire** ATM, we guarantee your transmission rate, so users are not left waiting during peak network activity.

Service Levels

e.spire ATM service levels let you subscribe to exactly the guaranteed level of service that you need to meet specific performance needs. And, with **e.spire** ATM, your service levels are incrementally scalable to accommodate the changing demands of your network throughput requirements.

We've engineered our service levels in terms of Port Speed, to accommodate peak loads, and Sustained Cell Rate (SCR), to address normal activity. In the chart below, Port Speed identifies the speed of your connection to the ACSI network, and the maximum speed at which the traffic may be "burst" through the **e.spire** data network. **e.spire** is the guaranteed transmission rate - the speed at which you are able to transmit data, at any given moment. As a subscriber, transmission at the SCR is always ensured, and depending upon network capacity at the time of transmission, your data may be transmitted at a higher speed, up to the level of the port speed associated with your guaranteed SCR, without any additional charges.

The **e.spire** ATM service is offered at incremental Variable-Bit-Rate (VBR) and Constant-Bit-Rate (CBR) port speeds and Sustained Cell Rates (SCR) per Permanent Virtual Circuit (PVC), including:

e.spire Variable-Bit-Rate(VBR) ATM Service Levels

Port Speeds	SCR per PVC
2 Mbps	.5 Mbps
4 Mbps	1 Mbps
6 Mbps	1.5 Mbps
8 Mbps	2 Mbps
10 Mbps	2.5 Mbps
15 Mbps	4 Mbps
20 Mbps	5 Mbps
30 Mbps	8 Mbps

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Data Services - Frame Relay

- Data & Internet Services -

e.spire Frame Relay is ideal for "burstable" applications, with bandwidth needs that vary, and for interconnecting geographically dispersed networks and equipment. Businesses of any size can take advantage of **e.spire** Frame Relay for internetworking, application sharing, e-mail, file transfer, PC-to-PC and PC-to-Server communications, imaging, and multimedia data transmission.

Our internetworking strategy connects **e.spire** Frame Relay to frame relay networks of other key providers via NNIs (Network-to-Network Interfaces). Therefore, **e.spire** Frame Relay offers comprehensive solutions to transparently interconnect your local, regional, and national sites regardless of their location. Our support of multi-protocol encapsulation makes it easier to integrate new and legacy systems.

And since **e.spire** Frame Relay scales to a variety of port connections and Committed Information Rate (CIR), you have the flexibility to implement point-to-point, star, or fully meshed networks with potentially significant savings over private leased-line networks.

Service Levels

Our service is engineered for high-speed data transmission across **e.spire's** fully redundant ATM network, which is monitored 24 hours a day, 7 days a week, to the point of service demarcation. You benefit from continual service delivery because, in the event of network failure, we automatically reroute traffic.

With **e.spire** Frame Relay, you connect with the speed and service level that is right for your business, and right for your budget. When you subscribe to the level of service you need to meet normal and peak traffic loads, **e.spire** guarantees bandwidth availability and sustained throughput levels at the Committed Information Rate (CIR). And, when additional network capacity is available, your traffic "bursts" above the CIR, up to the maximum port speed, for even better performance.

More Info

If you are interested in any **e.spire** Data or Internet Service, please email our **Product Management Department** or call 1.888.6espire.

Please select which product or service overview page you would like to view.

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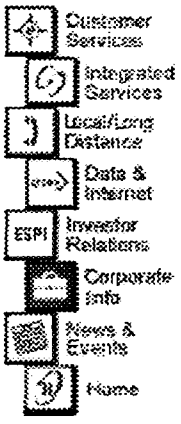
communications to the point.



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Network Locations

NXX Lookup Show NXX

espire's Mid Atlantic network consists of three individual "self healing" SONET rings totaling 102.2 route miles designed to serve the Central Business District in downtown Baltimore, the Baltimore/Washington corridor, as well as from Laurel to Columbia MD, with an additional 21 mile ring south to Greenbelt under construction.

Complete Network Services

- Local technicians available 24 hours a day, 7 days a week
- Choice of interexchange carrier access
- State-of-the-art fiber optic quality and SONET network architure
- Network reliability, capacity and security are unrivaled
- Unmatched customer service and operational flexibility
- Data services including ATM, Frame Relay and ISP to DS3 speed and beyond
- Private "SONETRing" Networks available from OC-3 to OC-48 speeds

Service Beyond the Sale

- Customer Satisfaction Service Center available 24 hours a day, 7 days a week
- Network management Center providing trouble monitoring 7x24
- Local telephone bill review after conversion
- Sales Consultants and Network Sales Engineers available before and after the sale
- "Local Account Team" available for a totally integrated communications solution

Expansion Plans

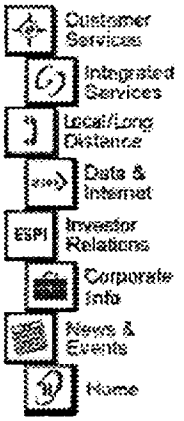
- Southern expansion to serve the Silver Spring area and continue into Washington DC and Northern VA

Baltimore Team.....

- The experienced team of professionals at espire will work with you to develop a total communications solution for your business. From Dialtone to Data, espire has it all

Email Baltimore: Baltimore Team

Virgil Hibner, **Sales Director**
Larry Maybin, Sr. Account Executive
Terry Hodge, Data Account Executive
Malinda Schmith, Branch Sales Manager
Keith Van Lanen, Account Executive



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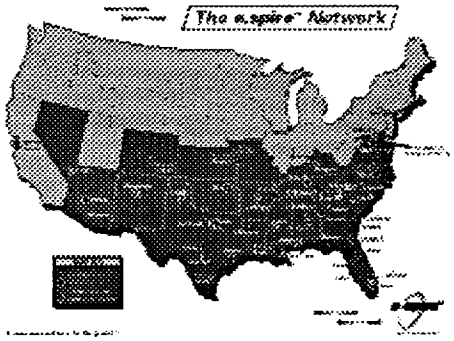
Network Locations

Please select from the list which **e.spire** city you would like to view, then click the "Show Details" button. You will find information on **e.spire**'s fiber optics network presence in these cities, as well as contact, expansion, network information and local calling area codes. You can also click on the **e.spire** network map "thumbnail" to view the latest e.spire network or the Data Availability Map.

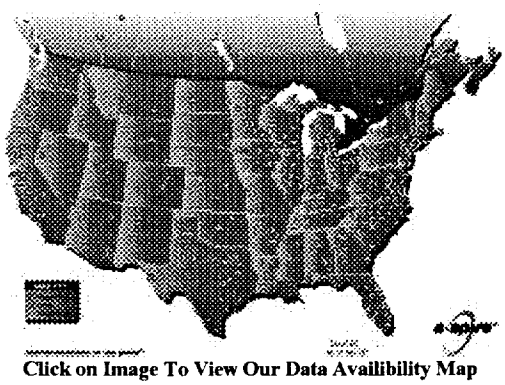
Select a **e.spire City Specific** Information Page from the drop-down list box.

BALTIMORE

Show Details



Click on Image To View Our Network Cities



Click on Image To View Our Data Availibility Map

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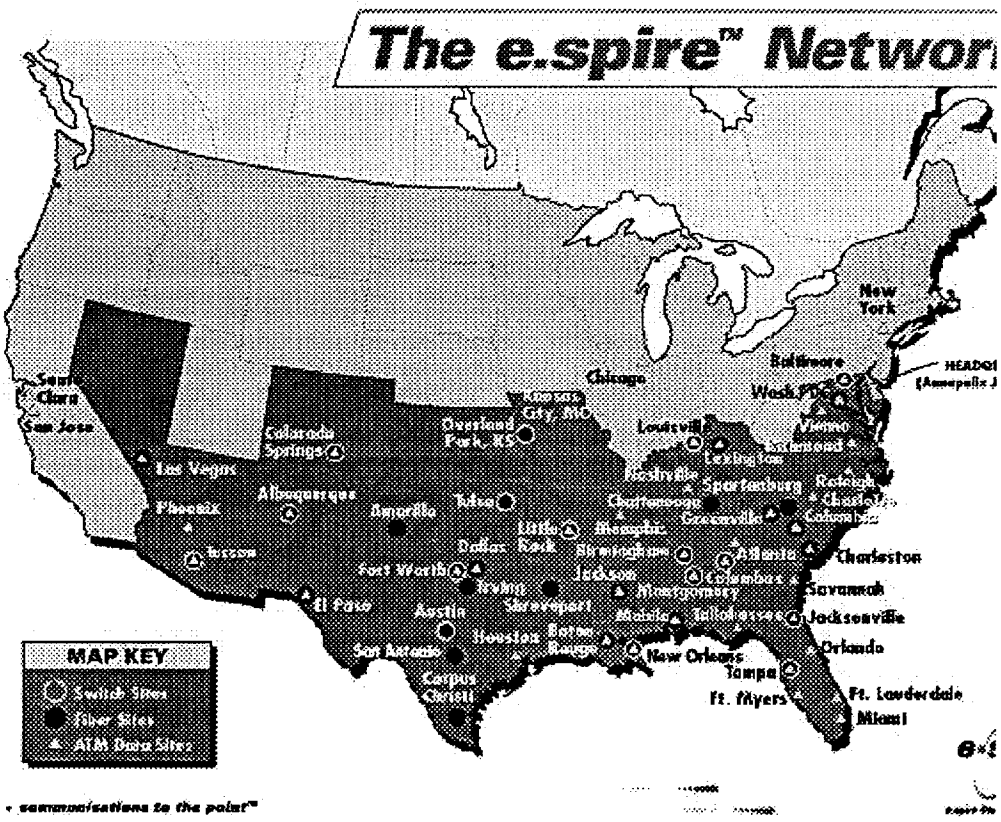

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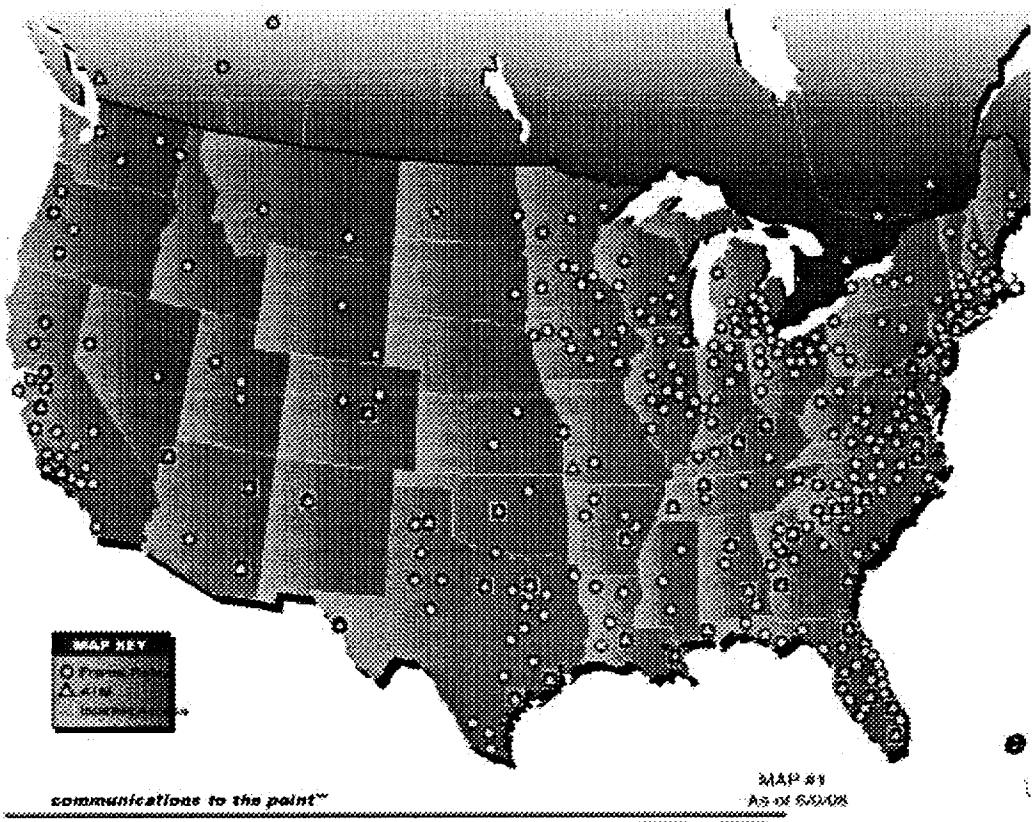
Network Locatic

e.spire™ Data Service Availability



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ATTACHMENT B

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Petition of Bell Atlantic Telephone Companies for Forbearance from Regulation as Dominant Carriers in Delaware; Maryland; Massachusetts; New Hampshire; New Jersey; New York; Pennsylvania; Rhode Island; Washington, D.C.; Vermont; and Virginia	CC Docket No.

Affidavit of Michael R. McCullough

Introduction

1. I am Michael R. McCullough, Director - Special Access Product Management, for the Bell Atlantic telephone companies. I have been involved in product development and regulatory issue management at the director level since 1986. In my current position, I am responsible for management of existing special access products and services, including setting prices, and for developing new products and services that meet customer needs. I submit this affidavit for the purpose of describing the market for special access services.

2. Because of the purchasing power of just a few customers, and the growth of competitive networks, the special access market has become highly competitive in the Bell Atlantic region. Special access services are used primarily by interexchange carriers and business customers, who can easily shift large amounts of demand to other carriers.

In order for Bell Atlantic to compete freely and thereby offer customers the best possible package of prices and services, Bell Atlantic needs to be freed from the current regulatory restraints.

Description of Services

3. Special access services are purchased primarily by interexchange carriers (IXCs) and by large, sophisticated, telecommunications-intensive business and governmental customers to obtain dedicated circuits between an IXC's point of presence (POP) and a customer's premises, between two POPs, or between customers' premises. IXCs use special access lines in conjunction with their long distance services to provide end-to-end services to their business and other customers.

4. Special access circuits can be provided in either analog or digital formats. Analog frequencies range from direct current applications to 80 kilohertz ("kHz") video applications. The bulk of Bell Atlantic's special access services consist of digital high capacity services. These digital high capacity services account for 86 percent of Bell Atlantic's special access business. Digital speeds for these services range from 2.4 kilobits per-second ("Kbps") to 4.8 gigabits per-second ("Gbps"). Digital services are often referred to as high capacity services. Up to 24 voice grade circuits can be combined onto a 1.5 megabits per-second ("Mbps") DS1 circuit, and up to 28 DS1 circuits can be combined ("multiplexed") onto a 45 Mbps DS3 circuit. Higher speed services are available, but the customer connection usually is provided at the DS3 level. The

following chart demonstrates the relationship of the various digital services:

Service	Speed	DS1 Equivalents
Digitally encoded Voice Grade	64 Kbps	1/24 DS1
DS1 Service	1,544 Kbps	1 DS1
DS3 Service	45,000 Kbps	28 DS1

5. IXCs usually connect with Bell Atlantic at the POP using special access services at the DS3 level, and use multiplexing at Bell Atlantic's serving wire centers to connect these DS3 facilities to DS1 "tails" to reach business customers' premises. In addition, some business customers require DS3 service all the way from their premises to IXC POPs. Some IXCs use DS3 services from Bell Atlantic to connect their facilities to the private line, Internet backbone, or switched message services of other IXCs

6. Business and governmental customers have many applications for special access services. In the 1980s, they used special access predominantly for voice services, while the 1990s have seen a dramatic increase in e-mail, Internet, and other data applications, including graphics and video. Examples of voice applications include point-to-point private line circuits between two cities, and off-premise stations to PBXs between two cities.

7. Special access is also used to serve PBX and Centrex customers. Virtually every large business and state or federal government customer uses PBX or Centrex service. These services concentrate traffic so that the PBX/Centrex customer can be served primarily through DS1 level special access services that detour around the end office switch. In this way, customers can satisfy the dominant portion of their

telecommunications needs through special access connections to IXCs and through the transport facilities of competitive access providers ("CAPs").[1]

Customers

8. Demand for special access services is highly concentrated among a relatively small group of powerful customers. The largest single block of Bell Atlantic special access customers are the three Tier I IXCs – AT&T, MCI/Worldcom, and Sprint. Large business customers are the next largest block, followed by the other IXCs and cellular carriers. The breakdown of revenues for Bell Atlantic is shown below.

3 Largest IXCs (Tier I)	53%
Business	31%
Other IXC & Cellular	14%
Federal Government	2%
Total	100%

9. These customers can easily obtain alternatives to Bell Atlantic's special access services. IXCs, large business customers, and the federal government typically aggregate their demand at hub locations and take advantage of their volume purchasing power by seeking competitive bids. They also leverage their business in dense metropolitan areas to obtain discounts on services in rural or other less dense areas. This is an especially effective factor in this case where approximately 93% of Bell Atlantic's access demand come from only 20% of its central offices.

[1] Many of these competitors have since evolved into full service providers known as competitive local exchange carriers, or "CLECs." However, for simplicity, I will refer to these competitors as competitive access providers, or "CAPs" throughout the remainder of this affidavit.

10. The common thread for business customers is that the businesses they are in determine the mix of services and facilities that they need in a particular geographic area. The IXC, on the other hand, focuses on Bell Atlantic special access service as a commodity, purchasing a large volume of circuits to meet their needs throughout a state. They consolidate and intermingle multiple customer requirements over routes that are optimized to secure the best volume pricing schedules in the Bell Atlantic interstate tariffs.

11. Large business and government customers are sophisticated buyers of telecommunications services in their own right and have become skilled over the years in promoting competitive bidding for special access services among local exchange carriers, competitive access providers, and IXCs. Such customers include the large financial institutions (e.g., Citibank, Morgan Stanley Dean Witter, etc.), information services companies (e.g., IBM) and the federal and state governments. The competition to win bids from these large customers, which can cause large shifts in demand, is intense. Examples of these types of bids include the General Services Administration's FTS 2000 request for proposal ("RFP") and the upcoming FTS 2001 RFP for providing access services to the federal government.

12. Large purchasers of special access services also leverage the buying power they have in urban markets, where there are multiple suppliers, and play the carriers off against each other, in order to receive price breaks on special access services in all geographic areas. If Bell Atlantic attempted to charge higher rates in rural areas, which make up only a minor portion of Bell Atlantic's special access revenues, these large purchasers would simply move their purchases to competitors in urban areas, where Bell

Atlantic obtains the vast majority of its special access revenues. For example, Bell Atlantic recently bid on an RFP by a large IXC for SONET-based access services throughout the entire Bell Atlantic region.[2] The bid included services in both dense, urban areas as well as in low-density rural areas. As a result, even if Bell Atlantic wanted to, it could not charge higher prices in rural areas and expect to win such bids. In this way, competitive alternatives in urban areas discipline Bell Atlantic's prices throughout the state where it provides service.

13. When large customers issue RFPs for a package of services, they expect bidders to give them better terms than those generally available from the generic tariff. They also expect a bid that encompasses their entire needs, without regard to the regulatory jurisdiction of the service. However, existing price cap regulation prevents Bell Atlantic from meeting such requirements in many instances. In all of the states in the Bell Atlantic region, Bell Atlantic is allowed to offer customer-specific rates for the intrastate portions of an RFP. Customers do not understand why Bell Atlantic's proposed contract rates do not include circuits that are used for interstate traffic as well. Alone among the potential bidders, Bell Atlantic must adhere to published rates for the interstate portion of such bids. In the give and take of negotiations over an RFP, Bell Atlantic's inability to offer further reductions to match a competing bid is often viewed as inflexibility, rather than the product of external regulatory constraints. The end result, in any event, is that Bell Atlantic often loses bids for large contracts solely because of regulatory constraints, and customers thereby lose the full benefit of competition.

[2] The bid was for an entirely interstate service using a generally available tariff rate.

14. For example, a major quasi-governmental customer recently sought bids for dedicated facilities to link its offices in northern Virginia to its locations in Washington, DC. In each of these jurisdictions, the state regulatory agency has granted Bell Atlantic pricing flexibility to offer customer-specific prices. For this reason, Bell Atlantic can offer a DS-3 point-to-point circuit between two locations within northern Virginia at a customer-specific price, yet it cannot offer a similar price for a functionally identical circuit from the customer's location in northern Virginia to another location in Washington, D.C., which is considered an interstate circuit. The customer was incredulous when informed by Bell Atlantic that, given the contract pricing constraints that we face in the interstate jurisdiction, we could not approach the competitive offers they were receiving for such circuits.

Competition

15. Special access competition has been strong within the Bell Atlantic region since the mid-1980s. By the end of 1997, competitive access providers had installed over 35,351 route miles of fiber facilities in the United States, 26 times the 1,326 route miles the competitive access providers had in 1990, just 7 years earlier.[3] According to a report by Quality Strategies, almost half of that total (more than 15,000 miles) is in states served by Bell Atlantic. As detailed in the state-by-state analyses, most of these national CAPs have a significant presence within the Bell Atlantic operating areas. Competitors have collocated in approximately 370 central offices throughout the Bell Atlantic region. Their presence in these offices, and the reach of their fiber networks, give them access to

about 90 percent of Bell Atlantic's special access demand for the jurisdictions included in this petition. Bell Atlantic's competitors offer a wide range of services that are fully substitutable for Bell Atlantic's special access services.

16. Once a CAP establishes a fiber network in a market, it is very easy and economical for the carrier to extend its facilities to nearby customers. A CAP can reach a building within 2,000 feet of its network for an initial investment of as low as $6,200 in a major city or urban area, and it can reach a building within one mile of its network in a suburban or rural area for no more than $24,000. ***See*** Exhibit 1. In metropolitan areas, CAPs can lease duct space for about $5/foot, or contract with other entities, such as power and gas companies and owners of subway/rail systems, for access to poles or underground facilities. In these ways, competitors can economically expand their reach to more and more end user locations.

17. CAPs can sell any service, or package of services, to multi-location customers through their own facilities, or by buying Bell Atlantic access services in conjunction with their own facilities. For buildings without fiber links, the CAPs can collocate in Bell Atlantic central offices and use Bell Atlantic's facilities to those buildings. Once they develop sufficient traffic to a building through collocation, the CAPs typically install their own fiber facilities to that building to replace the collocated circuits. In this way, they are able to avoid making capital commitments until they have enough demand to support their investment in a particular facility.

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[3] FCC, "Fiber Deployment Update – End of Year 1997," Jonathan M. Kraushaar.

18. Competitors that do not own their own fiber optic networks can use a popular strategy known as "Smart Build" to enter a new market. "Smart Build" involves obtaining a customer base in specific target markets by establishing a market presence without construction of their own facilities. This can be accomplished by buying service with volume discounts and reselling portions of that capacity and/or by leasing portions of other carriers' networks. This strategy allows a company to test various markets and build a customer base without making large capital investments. After it tests a market, a competitor can then build out its own network when its customer base is large enough to make the expansion profitable. As the new network is constructed, the competitor simply terminates the resale and leasing arrangements and moves its customers' service onto its own network. When fiber facilities are installed to a particular building, a competitive access provider can offer DS1, DS3 or any other capacity services or technology (*e.g.*, ATM, SONET, IP) to any customer in that building at minimal incremental cost.

19. Initially, special access competitors targeted large business customers who valued network diversity and whose relatively high demand for services justified dedicated facilities. Today, competitors are targeting business customers of all sizes. Competitors may sell any service, or package of services, to small and multi-location customers by leasing or reselling Bell Atlantic special access services, in conjunction with their own facilities. As noted above, once their market has developed, they simply build facilities to replace Bell Atlantic's special access services.

20. There is a growing trend for IXCs to vertically integrate with competitive access providers, which will increase the incentive for those IXCs to use the services

provided by their new affiliates. AT&T's purchase of Teleport Communications Group (TCG) and Worldcom's purchases of Metropolitan Fiber Systems (MFS) and MCI, which owns MCI Metro, provide these carriers with the capability to self-supply over 50% of Bell Atlantic's remaining special access demand. *See* Appendices 1 and 2 to Attachment A of this pleading. Because self-supply of access is at incremental cost to the affiliated IXC/CAP, and because the IXC/CAPs will self-supply for other strategic reasons, it is virtually impossible for Bell Atlantic to compete for this business given existing regulatory constraints. For example, in Maryland, AT&T recently filed an interstate tariff offering discounted rates for long distance calling, provided that the customer uses exchange access lines offered by its affiliate, TCG. IXCs have offered such linked discounts for years to customers that sign contracts for combinations of special access and IXC long distance services.

21. The business customer buyer can take advantage of a wide range of alternatives to Bell Atlantic's special access services. Large customers can also build their own facilities to self-supply communications services. Retail point-of-sale applications have been economically served by very small aperture terminal ("VSAT") satellite facilities since the 1980's, as evidenced by the Walmart, Mobil, and Exxon conversions, among others. The recent expansion of mobile telephone spectrum also has provided economical alternatives for point-of-sale applications. Microwave applications are pervasive and well documented at the Commission. Governmental customers such as state, county, and municipal governments routinely utilize their ready access to rights-of-way to place infrastructure that enables multi-site connectivity. These entities also avail

themselves of low cost connectivity from cable TV providers, often negotiated though franchise agreements.

22. Taken together, these factors have resulted in a highly competitive market for special access services in the Bell Atlantic region. According to a 1998 study performed by Quality Strategies, competitive access providers have captured between 42% and 57% of overall high capacity special access demand in Bell Atlantic's six largest metropolitan areas (Boston, Manhattan, Philadelphia, Pittsburgh, Baltimore, and Washington, DC). At the retail level, which includes underlying Bell Atlantic facilities that are resold to end users, competitive access providers and IXCs control between 67% and 79% of demand in the major urban markets (where the bulk of demand is concentrated). This is highly significant, because resellers use their volume purchasing power to obtain lower prices from Bell Atlantic for even the smallest special access customers. In addition, these resellers can easily replace Bell Atlantic's facilities to their retail customers in the future as they expand their networks. Consequently, for all practical purposes, Bell Atlantic has lost those customers.

23. Facilities-based competitors have taken advantage of Bell Atlantic's lack of pricing flexibility to gain market share by pricing their services just below Bell Atlantic's rates. Anecdotal information from customers indicates that competitors provide quotes that are guaranteed to be 15% or 20% below Bell Atlantic's prices, whatever the service. Since Bell Atlantic must provide advance notice of any rate reductions through its tariff filings, and offer average rates throughout its service area, competitors always know in advance what they have to do to beat Bell Atlantic's prices.

Competitors also can price special access at marginal costs to win customer contracts and sell more profitable services in the future. In both cases, competitors win business simply because Bell Atlantic cannot participate effectively in the competitive bidding process. Customers have complained that they cannot get Bell Atlantic's best competitive price and that the tariffed Bell Atlantic rate represents a benchmark against which the competitors set their prices. As a telecommunications director for a large customer stated, "[i]f Bell Atlantic were allowed to compete, I suspect we'd see deeper price discounting."[4]

[4] J. Haring and H.M. Shooshan, *Universal Competition in the Supply of Telecommunications Services: Eight Customer Perspectives*, p. 37 (dated Feb. 8, 1995) (quoting the Director of Telecommunications Planning and System Design at Marriott International, Inc.) filed as an ex parte in CC Docket No. 94-1 (Feb. 13, 1995).

I hereby swear, under penalty of perjury of the laws of the United States, that the foregoing is true.

Michael R. McCullough

Michael R. McCullough

Subscribed and sworn before me this 11th day of January, 1999.

My Commission expires 3-31-99.

Notary Public

BELL ATLANTIC

Average Investments for 12 Strand Fiber Extension (Representative)

Assumptions:

- **Use 12 Fiber Sheath investments**
- **Major City, Urban, Suburban, Rural Cable mixes**
- **Support Structures for aerial and underground cable are not included**
- **Buried cable investment includes trenching**

			Cable Mix Percent				Allocated Investment			
		Investment per Foot	Major City	Urban	Suburban	Rural	Major City	Urban	Suburban	Rural
Line	Cable Type	(A)	(B)	(C)	(D)	(E)	(F)=A*B	(G)=A*C	(H)=A*D	(I)=A*E
1	aerial	2.28	15.00%	44.00%	52.00%	65.00%	0.3420	1.0032	1.1856	1.4820
2	buried	11.13	0.00%	3.00%	2.00%	23.00%	0.0000	0.3339	0.2226	2.5599
3	underground	3.26	85.00%	53.00%	46.00%	12.00%	2.7710	1.7278	1.4996	0.3912
4	Weighted Investment per Foot				Sum Lns 1+2+3		3.1130	3.0649	2.9078	4.4331

		Weighted Investment per Foot		Average Investment For 2000' Extension (Dollars)	Average Investment For one mile Extension (Dollars)
		(J)		(K)=J*2000	(L)=J*5280
5	Major City(F4)	3.1130		6226.00	16436.64
6	Urban (G4)	3.0649		6129.80	16182.67
7	Suburban (H4)	2.9078		5815.60	15353.18
8	Rural (I4)	4.4331		8866.20	23406.77